I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Scottsdale (the City) was incorporated in 1951. The current City Charter was adopted in 1961, which established the Council/Manager form of government. The City provides basic government services to its citizens including roads, water, sewer, solid waste management, public transit, parks and recreation facilities, police and fire.

The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

The financial reporting entity presented in these financial statements consists of the City of Scottsdale (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Individual Component Units - Blended

The City of Scottsdale Municipal Property Corporation (MPC), a nonprofit corporation, was created by the City in 1967 solely for the purpose of constructing, acquiring and equipping buildings, structures, or improvements on land owned by the City. The MPC is governed by a Board of Directors appointed by the City Council. For financial reporting purposes, transactions of the MPC are included as a Governmental Fund type as if it were part of the City's operations.

The Scottsdale Preserve Authority (SPA), a nonprofit corporation, was created by the City in 1997 for the purpose of financing land acquisitions for the McDowell Sonoran Preserve. The City Council must approve the election of the SPA's Board of Directors. For financial reporting purposes, transactions of the SPA are included as a Governmental Fund type as if it were part of the City's operations.

Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts were formed by petition to the City Council in 1992, 1994, 1997, and 1998 respectively. The Districts' purposes are to acquire and improve public infrastructure in specified land areas. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the Districts. The City Council serves as the Board of Directors. The City has no liability for the Districts' debt. For financial reporting purposes, transactions of the Districts are combined together and included as a Governmental Fund type as if they were part of the City's operations.

Separate financial statements of the MPC, SPA and Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts may be obtained at the City's Financial Services Department, Accounting and Budget Division, 7447 East Indian School Road, Suite 210, Scottsdale, Arizona 85251.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and trust fund financial statements. Agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims, and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The government reports the following major Governmental Funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *General Obligation Bond Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term obligation debt principal, interest, and related costs.

The *General Capital Improvement Plan Construction Capital Projects Fund* accounts for the resources used to acquire, construct and improve major capital facilities, other than those financed by Proprietary Funds. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied.

The government reports the following major Proprietary Funds:

The *Water and Sewer Utility, Airport and Solid Waste Funds* account for the operating revenues and expenses of the City's water and sewer utility systems, airport and sanitation services (solid waste, brush removal, container maintenance, etc.).

Additionally, the government reports the following fund types:

The *Internal Service Funds* account for fleet management and self-insurance services provided to other departments or units of the City, on a cost-reimbursement basis.

The *Agency Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations or have a measurement focus. The City's agency funds are used to record the Family Self-Sufficiency activity and Retainage Escrow activity.

The *Private-Purpose Trust Funds* are used to account for assets held in a trustee capacity for scholarships and other purposes as designated by the donors or by legal restrictions. Both the principal and earnings of these expendable trust funds can be expended for the trusts' intended purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments-in-lieu of taxes, indirect costs and franchise fees, and other charges between the City's Water and Sewer Utility Fund, Airport Fund, and Solid Waste Fund, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's Enterprise and Internal Service Funds are charges for customer services including water, sewer, airport, and solid waste fees, vehicle purchase amounts and risk management charges. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash equivalents for purposes of the statements of cash flows are investments (including restricted assets) in the State of Arizona Local Government Investment Pool, mutual funds, demand deposits, repurchase agreements, and U.S. Treasury bills and notes with maturities of three months or less at acquisition date.

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The City has elected to report all investments at fair value. The City's policy is to invest in certificates of deposit, repurchase agreements, direct U.S. Treasury debt, securities guaranteed by the United States Government or any of its agencies, and the State of Arizona Local Government Investment Pool (LGIP). The fair value of each share in the LGIP is $1.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All accounts, property tax and court receivables are shown net of an allowance for uncollectibles. All receivables in excess of one year comprise the allowance for uncollectibles at June 30, 2003.

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent.

Property taxes levied for current operation and maintenance expenses on residential property are limited to 1.0 percent of the primary full cash value of such property. In addition, taxes levied for current operation and maintenance expenses on all types of property are limited to a maximum increase of 2.0 percent over the prior year's levy, adjusted for new construction and annexations.

Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

3. Inventories

Inventories of the Governmental Funds are recorded under the consumption method as expenditures when consumed rather than when purchased. Inventories are valued at year-end based on cost, with cost determined using an average cost method.

4. Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The revenue bond renewal and replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized for the fiscal year 2002/03.

Depreciation and amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

Water System	10 to 75 Years
Sewer System	25 to 50 Years
Buildings and Improvements	25 Years
Land Improvements	25 Years
Machinery and Equipment	20 Years
Motor Vehicles	3 to 10 Years
Furniture, Fixtures and Office Equipment	5 to 10 Years

The excess purchase price over fair market value of assets acquired in the Water and Sewer Utility Enterprise Fund is amortized on the straight-line method over 20 to 25 years.

When capital assets are disposed of, the cost and accumulated depreciation or amortization is removed from the accounts, and any resultant gain or loss is recognized in the government-wide and Proprietary Fund financial statements.

6. Compensated Absences
Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to a maximum number of hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount unused at year end are forfeited. The City's policy is to pay employees for unused accumulated vacation hours at termination or retirement. Sick leave time can be accumulated without limit. The City's policy, however, is that only those employees hired full-time before July 1, 1982 are paid for unused sick leave at death or retirement. Employees who retire on or after July 1, 1996, and who have accumulated 300 or more hours of sick leave, may elect to apply the value of the sick leave toward their City medical plan premiums.

All vacation pay is accrued when incurred in the government-wide, Proprietary and Fiduciary Fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30 in the Governmental and Proprietary Funds. The current compensated absences amount in the Governmental Funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. The City calculates this current amount based on vacation taken and an actuarial valuation dated January 1, 2003, for medical leave conversion. There is no long-term liability for compensated absences in the Governmental Funds.

7. Long-term obligations
In the government-wide financial statements and the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

8. Fund equity
In the fund financial statements, Governmental Funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the Governmental Fund balance sheet and the government-wide statement of net assets.

The fund balances of the City's Governmental Funds, $270,872, differs from net assets of governmental activities, $1,770,819, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the Governmental Fund balance sheets.

Reconciliation of Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets
(in thousands of dollars)

	Total Governmental Funds	Long-Term Assets/ Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS					
Cash and Investments	$ 276,172	$ -	$ 25,886	$ -	$ 302,058
Cash with Fiscal Agent	40,889				40,889
Receivables (net of allowance for uncollectibles)					
Interest	997	-	98	-	1,095
Privilege Tax	8,866	-	-	-	8,866
Hotel/Motel Tax	305	-	-	-	305
Property Tax	1,704	-	25	-	1,729
State Shared Sales Tax	1,359	-	-	-	1,359
Franchise Fee	1,769	-	-	-	1,769
Court Receivable	3,388	-	-	-	3,388
Highway User Tax	1,148	-	-	-	1,148
Auto Lieu Tax	663	-	-	-	663
Intergovernmental	1,454	-	-	-	1,454
Grants	411	-	-	-	411
Special Assessments	10,085	-	-	-	10,085
Note	4,000	-	-	-	4,000
Miscellaneous	2,577	-	150	-	2,727
Due from Other Funds/Internal Balances	4,664	-	-	(4,512)	152
Supplies Inventory	169	-	382	-	551
Advances to Other Funds/Internal Balances	1,298	-	-	(1,191)	107
Capital Assets (net of accumulated depreciation)	-	1,999,256	24,623	-	2,023,879
Deferred charges and other assets	-	1,467	-	-	1,467
Total Assets	$ 361,918	$ 2,000,723	$ 51,164	$ (5,703)	$ 2,408,102
LIABILITIES					
Accounts Payable	$ 9,375	$ -	$ 655	$ -	$ 10,030
Accrued Payroll and Benefits	8,579	-	118	(1,945)	6,752
Accrued Compensated Absences - Due Within One Year	-	-	48	1,945	1,993
Accrued Compensated Absences - Due in More Than One Year	-	11,217	278	-	11,495
Claims Payable	-	-	8,839	-	8,839
Due to Other Funds	4,512	-		(4,512)	-
Matured Interest Payable	15,269	-	-	-	15,269
Matured Bonds Payable	25,620	-	-	-	25,620
Deferred Revenue					
Property Tax	1,016	(1,016)	-	-	-
Special Assessments	10,085	(10,085)	-	-	-
Court	3,388	(3,388)	-	-	-
Tax Audit	1,353	(1,353)	-	-	-
Intergovernmental	1,235	-	-	-	1,235
Other	4,824	(4,000)	-	-	824
Advances From Other Funds	1,191	-	-	(1,191)	-
Due to Other Governments	696	-	-	-	696
Guaranty and Other Deposits	3,700	-	-	-	3,700
Other	203	-	-	-	203
Bonds, Loans, Capital Leases, and Other Payables	-	550,627	-	-	550,627
Total Liabilities	91,046	542,002	9,938	(5,703)	637,283
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	270,872	1,458,721	41,226	-	1,770,819
Total Liabilities and Fund Balances/Net Assets	$ 361,918	$ 2,000,723	$ 51,164	$ (5,703)	$ 2,408,102

(1) When capital assets (land, buildings, equipment, etc) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	$	2,799,823
Accumulated depreciation		(800,567)
	$	1,999,256

Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.

Bond issuance costs @ 7/1/02	$	563
Bond issuance cost for FY 2003		1,046
Amortization of bond issuance costs		(142)
	$	1,467

Long-term liablilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City refunded some of its exitsting debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent ($108,077) to be placed in escrow for payment of the old debt ($102,570) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was $5,507 and will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. Balances at June 30, 2003 were:

Contract and capital lease payables	$	(48,377)
Bonds payable		(503,713)
Deferred charge on refunding		8,327
Deferred issuance premium		(6,864)
Accrued vacation and sick leave pay		(11,217)
	$	(561,844)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance. Deferred revenue for the long-term special assessment receivables shown on the governmental fund statements is not deferred on the statement of net assets. Certain grant revenues deferred under modified accrual for governmental fund statements, is recognized as revenue under accrual accounting for the government-wide statements.

Deferred special assessment revenue	$	10,085
Deferred court revenue		3,388
Deferred other		4,000
Deferred tax revenue		2,369
	$	19,842

(2) Internal Service Funds are used by management to charge the costs of certain activities, such as fleet management and self insurance, to individual funds. The assets and liabilities of certain Internal Service Funds are included in governmental activities in the statement of net assets.

$	41,226

B. Explanation of certain differences between the Governmental Fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The net change in fund balances for Governmental Funds, $(12,702), differs from the change in net assets for the governmental activities, $55,133, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the Governmental Funds. The effect of the differences is illustrated below.

Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
REVENUES:						
Taxes - Local:						
Property	$ 41,583	$ (14)	$ -	$ 649	$ -	$ 42,218
Transaction Privilege	110,684	(221)	-	-	-	110,463
Transient Occupancy	6,688	-	-	-	-	6,688
Light and Power Franchise	5,147	-	-	-	-	5,147
Cable TV Franchise	2,440	-	-	-	-	2,440
Salt River Project In-Lieu	197	-	-	-	-	197
Fire Insurance Premium	414	-	-	-	-	414
Taxes - Intergovernmental:						
State-Shared Sales	15,853	-	-	-	-	15,853
State Revenue Sharing	21,574	-	-	-	-	21,574
Auto Lieu Tax	7,984	-	-	-	-	7,984
Highway User Tax	13,137	-	-	-	-	13,137
Local Transportation Assistance Fund	1,146	-	-	-	-	1,146
Business and Liquor Licenses	1,816	-	-	-	-	1,816
Charges for Current Services:						
Building and Related Permits	15,449	-	-	-	-	15,449
Recreation Fees	3,000	-	-	-	-	3,000
Westworld Equestrian Facility Fees	1,541	-	-	-	-	1,541
Fines and Forfeitures:						
Court Fines	4,152	(1,415)	-	-	-	2,737
Parking	213	-	-	-	-	213
Photo Radar	765	-	-	-	-	765
Court Enhancement	512	-				512
Library	405	-	-	-	-	405
Special Assessments	1,970	5,771	-	-	-	7,741
Property Rental	2,836	-	-	-	-	2,836
Interest Earnings	3,830	-	-	278	-	4,108
Intergovernmental:						
Federal Grants	8,000	-	-	-	-	8,000
State Grants	432	-	-	-	-	432
Miscellaneous	1,177	-	-	-	-	1,177
Developer Contributions	762	-		-	-	762
Streetlight and Services Districts	1,018	-	-	-	-	1,018
Contributions and Donations	439	-	-	-	-	439
Reimbursements from Outside Sources	1,032	-	-	-	-	1,032
Indirect Costs	8,045					8,045
Other	850	-	-	-	-	850
Total	285,091	4,121	-	927	-	290,139

(continued)

Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
EXPENDITURES/EXPENSES						
Current:						
General Government	$ 16,010	$ (99)	$ 7,931	$ 84	$ -	$ 23,926
Police	52,371	(266)	1,983	381	-	54,469
Financial Services	7,752	(108)	208	31	-	7,883
Transportation	10,869	25	60,925	18	-	71,837
Community Services	48,950	(475)	3,604	143	-	52,222
Information Systems	7,386	13	4,499	3	-	11,901
Fire	17,745	-	276	106	-	18,127
Municipal Services	11,553	(138)	254	621	-	12,290
Citizen and Neighborhood Resources	2,446	(7)	(19)	13	-	2,433
Human Resources	3,375	220	3	3	-	3,601
Economic Vitality	6,268	150	3	0	-	6,421
Planning and Development	11,746	(200)	327	35	-	11,908
Streetlight and Services Districts	1,099	-	-	-	-	1,099
Debt Service:						
Principal	30,305	-	-	-	(30,305)	-
Interest and Fiscal Charges	29,759	-	-	-	(1,973)	27,786
Bond Issuance Costs	1,046	-	-	-	(1,046)	-
Capital Improvements	68,338	-	(68,338)	-	-	-
Total Expenditures/Expenses	327,018	(885)	11,656	1,438	(33,324)	305,903
OTHER FINANCING USES/CHANGES IN NET ASSETS						
Net Transfers (to) From Other Funds	15,859	-	(527)	(4,377)	-	10,955
Capital Contibutions	-	-	59,888	12	-	59,900
Sales of Capital Assets	424	-	(519)	137	-	42
Refunding Bonds Issued	102,570	-	-	-	(102,570)	-
Long-term Capital-Related Debt Issued	12,165	-	-	-	(12,165)	-
Premium on Bonds Issued	6,284	-	-	-	(6,284)	-
Payment to Bond Refunding Escrow Agent	(108,077)	-	-	-	108,077	-
Total	29,225	-	58,842	(4,228)	(12,942)	70,897
Net Change for the Year	$ (12,702)	$ 5,006	$ 47,186	$ (4,739)	$ 20,382	$ 55,133

Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

Reconciling Items Description:

(3) Because some property taxes will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	$	(14)
Court revenue		(1,415)
Tax audit revenue		(221)
Special Assessment revenue		5,771
	$	4,121

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual for long-term compensated absences	$	(885)

(4) When capital assets that are to used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures	$	65,460
Depreciation Expenses		(77,643)
Loss on disposal of capital assets		(203)
Difference	$	(12,386)

The proceeds from the sale of land are reported as revenue in the governmental funds. However, the cost of the land sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "gain on sale of land" in the statement of activities. Thus, more revenue is reported in the governmental funds than gain in the statement of activities.

Cost of land sold	$	(316)

Donations of capital assets are not shown on the governmental fund statements, but are included in the assets of the City. On the statement of activities, these donations are shown as capital contributions.

Capital Contributions	$	59,888

(5) Internal Service funds are used by management to charge the costs of certain acitivities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. Capital assets contributed by the governmental funds ($516) are treated as capital contribution revenue in the Internal Service fund statements and capital outlay expenditures in the governmental funds statements. For government-wide purposes, the capital contribution is reclassified as a transfer in in the Internal Service Fund column and a transfer out in the Capital Related Items column.

Change in Net Assets	$	(4,739)

Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

(6) Bond issuance costs are reported as an expenditure in governmental funds in the year of bond issuance and thus, have the effect of reducing fund balance because current financial resources have been used. For the government-wide statements; however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Bond issuance costs for FY 2003	$	1,046
Amortization of bond issuance costs		(142)
Difference	$	904

Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's bonded debt was reduced in two ways; principal payments were made to bond holders and resources were sent to the bond paying agent for the advance refunding of outstanding bonds.

Transferred to the paying agent:		
For bond principal	$	108,077
Principal payments made		30,305
	$	138,382

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued interest was calculated for bonds and notes payable, and additional interest expense was recognized on the amortization of bond discount and premiums which are expended within the fund statements.

Amortization of deferred charges on refundings	$	1,123
Amortization of bond premium and discounts		992
	$	2,115

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:

Refunding General Obligation Bonds	$	(84,165)
Refunding Revenue Bonds		(30,570)
Premium on Refunding Bonds		(6,284)
	$	(121,019)

III. STEWARDSHIP, COMPLIANCE, and ACCOUNTABILITY

A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2002/03 on a cash basis and the appropriation for this budget is established and reflected in the financial statements as follows:

The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Fund (Highway User Fuel Tax, Preserve Privilege Tax, and Transportation Privilege Tax), Debt Service Funds (except for the Community Facilities Districts Debt Service Funds), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented.

The Community Development, Home, Grants, Section 8, and Special Programs Special Revenue Funds, Community Facilities Districts Funds, Capital Projects Funds, Internal Service Funds, and Trust and Agency Funds have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds. Budgets for the Community Development, Grants, and Section 8 Funds are established pursuant to the terms of the related grant awards. Budgets for the Community Facilities Districts are established in accordance with Arizona Revised Statutes, which do not require their inclusion in the City budget or adoption by the City Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized. Budgets for Internal Service Funds are established in order to help departments control operational costs. Budgets for Trust and Agency Funds are established in accordance with the trust/agency agreements.

On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments.

At the first regular Council meeting in June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During fiscal year 2002/03, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year.

Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another.

Management control of budgets is further maintained at a line item level within the department.

All expenditure appropriations that have not been expended lapse at year end. Beginning July 1, 1998, the City discontinued the use of encumbrance accounting. As such, fund balance amounts are not reserved for purchase orders, contract or other commitments.

B. Excess of Expenditures Over Appropriations

The Streetlight and Services District Department exceeded its expenditure appropriation by $(31,000). This over expenditure was funded by available fund balance.

The Highway User Revenue Fund exceeded its Operating Expenditures appropriation by $(450,000). This over expenditure was funded by the General Fund.

The Airport Enterprise Fund exceeded its expense appropriation by $(84,000). This over expense was funded by a transfer from the General Fund.

C. Deficit Fund Equity

The Section 8 Housing Fund had a deficit fund balance of ($42,000) caused by certain grant reimbursements due which may not be available in the upcoming period. Since these reimbursements are not assured, no revenue was accrued in the current fiscal year. These reimbursements due will be recognized as revenue when actually received. Since January 1998, the Fund has generated a surplus. Program administrators expect this trend to continue and anticipate eliminating the fund deficit within one year.

The Preserve Privilege Tax Capital Projects Fund had a deficit fund balance of $(7,110,000), caused by advanced spending of bond proceeds under a reimbursement resolution. Bonds will be sold in March 2004.

D. Fund Balance/Net Assets Reservations and Designations

Only restrictions imposed by external sources are shown as Restricted Net Assets on the government-wide financial statements. Reservations or designations of fund balances are shown in aggregate on the Governmental Fund financial statements, but not on the Proprietary Fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government's intended use of those net assets. Designations are created by administrative policy. The following are the reservations and designations of fund balance/net assets included in the reserved and unreserved fund balance/net assets at June 30, 2003:

Fund Balance Reservations and Designations (in thousands of dollars)

General Fund	Major	Nonmajor
Designated for Bonds Payable	$ 33,720	
Designated for Economic Stabilization Reserve	20,476	
Designated for Economic Investment	4,220	
Total Designated	$ 58,416	
Debt Service		
Reserved for Debt Service	$ 9,006	$ 4,664

Restricted Net Asset and Unrestricted Net Asset Designations

Water and Sewer	
Restricted for Repair and Replacement	$ 14,286
Restricted for Acquisition and Construction	2,435
Total Restricted	$ 16,721

The amounts presented below detail the City's planned use of the following Unrestricted Net Asset amounts:

Water and Sewer	
Designated for Operating Reserve	$ 15,363
Solid Waste	
Designated for Operating Reserve	$ 3,156
Airport	
Designated for Operating Reserve	$ 68
Self-Insurance	
Designated for General Liability Claims	$ 4,431
Designated for Benefits	4,109
	$ 8,540
Fleet Management	
Designated for Capital Equipment Replacement	$ 4,057

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The City maintains a cash and investment pool for use by all funds except the Municipal Property Corporation and Community Facilities Districts Funds, which have investments held separately by a trustee.

The City early implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2003. This Statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

Deposits
At June 30, 2003, the carrying amount of the City's deposits was $16,698,779, and the bank balance was $15,739,883. The $958,896 difference represents outstanding checks and other reconciling items.

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2003, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk.

Interest Rate Risk
As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than three years.

Credit Risk
City Charter, Ordinance, and Trust Agreements authorize the City to invest in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, commercial paper (A-1, P-1), repurchase agreements, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

Investments
The City's investments at June 30,2003, are summarized as follows:

(in thousands of dollars)		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 - 2**	**2 - 3**	
U.S. Treasuries	$ 66,163	$ 66,163	$ -	$ -	
U.S. Agencies	328,647	24,884	111,215 *	192,548	**
Repurchase Agreements	28,049	28,049	-	-	
Local Government Investment Pool	3,555	3,555	-	-	
Guaranteed Investment Contracts	475	475	-	-	
Money Market Funds	54,824	54,824	-	-	
Total Investments	$ 481,713	$ 177,950	$111,215	$ 192,548	

*$29,475 of these bonds are callable July 21, 2003 to May 3, 2004
**$172,431 of these bonds are callable July 23, 2003 to June 30, 2004

Total City cash and investments at fair value are as follows (in thousands of dollars):

Carrying Amount of City Deposits	$	16,699
Investments		481,713
Total Cash and Investments	$	498,412

Total City cash and investments are reported as follows (in thousands of dollars):

Primary Government		
Cash and Investments	$	422,727
Cash Held with Fiscal Agent		52,391
Restricted Cash		22,056
Handicap Scholarship Private Purpose Trust Fund		9
Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund		695
Family Self-sufficiency Agency Fund		70
Retainage Escrow Agency Fund		464
Total Cash and Investments	$	498,412

Investment income comprises the following for the year ended June 30, 2003 (in thousands of dollars):

Net Interest and Dividends	$	14,821
Net Decrease in the Fair Value of Investments		(9,194)
Total Net Investment Income	$	5,627

The net decrease in the fair value of investments during fiscal year 2002/03 was $9,193,871. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. Of the $9,193,871 net decrease, $7,864,309 represents the City's share of the loss on an investment within the Local Government Investment Pool. In addition, the City had an unrealized gain on investments held at June 30, 2003, of $1,187,935.

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

Receivable Balance (Net of Allowance for Uncollectible) (in thousands of dollars)

Governmental Activities:

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Nonmajor and Other Funds	Total Governmental Funds
Receivables					
Property Taxes and Penalties:					
Property	$ 620	$ 913	$ -	$ 196	$ 1,729
Court	12,690	-	-	-	12,690
Subtotal Property Taxes and Penalties	13,310	913	-	196	14,419
Other local taxes:					
Privilege	6,368	-	-	2,498	8,866
Hotel/Motel	305	-	-	-	305
State Shared Sales Tax	1,359	-	-	-	1,359
Franchise Fee	1,769	-	-	-	1,769
Auto Lieu	663	-	-	-	663
Highway User	-	-	-	1,148	1,148
Subtotal Other Local Taxes	10,464	-	-	3,646	14,110
Intergovernmental	7	-	335	1,523	1,865
Interest and Other:					
Interest	328	-	228	539	1,095
Special Assessments	-	-	-	10,085	10,085
Note (Sinclair Oil)	4,000	-	-	-	4,000
Miscellaneous	2,372	-	20	335	2,727
Subtotal Interest and Other	6,700	-	248	10,959	17,907
Gross Receivable	30,481	913	583	16,324	48,301
Less: Allowance for Uncollectibles	(9,302)	-	-	-	(9,302)
Net Total Receivables	$ 21,179	$ 913	$ 583	$ 16,324	$ 38,999

Major Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total
Receivables				
Charges for services	$ 10,677	$ -	$ 2,321	$ 12,998
Intergovernmental	-	571	-	571
Interest	507	-	12	519
Miscellaneous	429	137	48	614
Gross Receivable	11,613	708	2,381	14,702
Net Total Receivables	$ 11,613	$ 708	$ 2,381	$ 14,702

Governmental Funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the Governmental Funds were as follows:

(in thousands of dollars)	Unavailable	Unearned
Property Tax	$ 1,016	$ -
Special Assessments	10,085	-
Court	3,388	-
Tax Audit	1,353	-
Intergovernmental	-	1,235
Other	-	-
Note Receivable	4,000	-
Community Services	-	272
Other	-	52
Community Facilities District		
Developer Deposit	-	500
	$ 19,842	$ 2,059

C. Capital Assets

Capital Asset activity (in thousands of dollars) for the year ended June 30, 2003, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 324,138	$ 26,004	$ (316)	$ 349,826
Construction In Process	106,694	65,333	(104,511)	67,516
Total Capital Assets, Not Being Depreciated:	430,832	91,337	(104,827)	417,342
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	264,387	13,454	-	277,841
Streets and Storm Drains	1,934,425	120,845	-	2,055,270
Vehicles	38,429	5,087	(1,935)	41,581
Maintenance by Fleet	3,590	128	(66)	3,652
Machinery and Equipment	49,999	3,779	(1,029)	52,749
Total Capital Assets, Being Depreciated:	2,290,830	143,293	(3,030)	2,431,093
Less Accumulated Depreciation for:				
Buildings and Land Improvements	110,328	9,999	-	120,327
Streets and Storm Drains	588,245	62,238	-	650,483
Vehicles	17,111	5,247	(1,852)	20,506
Maintenance by Fleet	1,447	390	(66)	1,771
Machinery and Equipment	26,806	5,489	(826)	31,469
Total Accumulated Depreciation:	743,937	83,363	(2,744)	824,556
Total Capital Assets, Being Depreciated, Net	1,546,893	59,930	(286)	1,606,537
Governmental Activities Capital Assets, Net	$ 1,977,725	$ 151,267	$ (105,113)	$ 2,023,879

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 13,916	$ -	$ -	$ 13,916
Water Rights	64,489	199	-	64,688
Construction In Process	104,504	26,943	(62,484)	68,963
Total Capital Assets, Not Being Depreciated:	182,909	27,142	(62,484)	147,567
Capital Assets, Being Depreciated:				
Water System	440,188	25,468	(1,143)	464,513
Sewer System	264,759	45,148	(6,293)	303,614
Buildings and Land Improvements	14,285	630	(609)	14,306
Machinery and Equipment	5,036	948	(21)	5,963
Furniture, Fixtures and Office Equipment	698	-	-	698
Total Capital Assets, Being Depreciated:	724,966	72,194	(8,066)	789,094
Less Accumulated Depreciation for:				
Water System	107,513	13,622	(228)	120,907
Sewer System	52,004	6,803	(5,475)	53,332
Buildings and Land Improvements	4,539	792	(320)	5,011
Machinery and Equipment	2,034	273	-	2,307
Furniture, Fixtures and Office Equipment	412	52	-	464
Total Accumulated Depreciation:	166,502	21,542	(6,023)	182,021
Total Capital Assets, Being Depreciated, Net	558,464	50,652	(2,043)	607,073
Business-type Activities Capital Assets, Net	$ 741,373	$ 77,794	$ (64,527)	$ 754,640

Depreciation expense (in thousands of dollars) was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	$ 6,123
Police	1,488
Financial Services	208
Transportation	62,619
Community Services	3,343
Information Services	3,572
Fire	202
Municipal Services	19
Citizen and Neighborhoods Resources	19
Human Resources	3
Economic Vitality	3
Planning and Development	44
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,720
Total Depreciation Expense - Government Activities	$ 83,363

Business-Type Activities		
Water and Sewer System	$	20,663
Airport		677
Solid Waste		202
Total Depreciation Expense - Business-Type Activities	$	21,542

Construction Commitments

The City has active construction projects as of June 30, 2003. At year-end the government's commitments with contractors for specific projects (in thousands of dollars) are as follows:

Construction Commitments		Spent to Date		Remaining Commitment
Streets	$	7,294	$	4,383
Traffic		1,509		1,810
Improvement District		6		27
Fire		1,336		2,203
Police		461		1,306
Drain/Flood Control		1,064		596
Community		864		1,800
Parks/Recreation		6,131		1,932
Municipal Facilities		460		331
Technology		48		1,263
Libraries		136		618
Airport		775		86
Transit		141		166
Water System		16,856		7,190
Sewer System		305		2,045
	$	37,386	$	25,756

The improvement district portion of the commitment is financed by improvement district bonds. The traffic commitments are being financed by the .2 percent Transportation Privilege (Sales) Tax, which is reported in the Special Revenue Fund financial statements. All water and sewer system improvement projects are being financed through the use of water or sewer development fees and water or sewer rates.

D. Interfund Balances and Interfund Transfers

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2003, is as follows (in thousands of dollars):

Receivable Fund		Amount
General	$	263
Nonmajor Governmental Funds		4,401
Total	$	4,664

Payable Fund		Amount
Nonmajor Governmental Funds	$	111
Major Enterprise		
Airport		152
Nonmajor Governmental Funds		4,401
Total	$	4,664

The composition of individual funds having advances to and from other funds at June 30, 2003 is as follows.

The advance to the Preserve Privilege Capital Projects Fund from the General Fund is a result of a loan that was made in order to purchase a parcel of land outside of the area authorized for preservation sales tax funding in fiscal year 1999/00. The loan is required to be repaid in June 2005. The advance accrues interest at a rate of 6% compounded annually. The advance from the General Capital Improvement Plan Capital Project Fund to the Airport was to provide cash for the completion of the Kilo Ramp and Airport Service Road Reconstruction. The amounts will be repaid from the Airport Enterprise Fund when the Airport operations generate sufficient cash to cover operations.

Advances To Other Funds: (in thousands of dollars)		**Amount**
General	$	1,191
Major Governmental Funds		
General CIP Construction		107
Total	$	1,298

Advances From Other Funds: (in thousands of dollars)		**Amount**
Nonmajor Governmental Funds	$	1,191
Major Enterprise Funds		
Airport		107
Total	$	1,298

Transfers are used to fund capital projects and debt service, reallocate special revenue funds to operating centers or other operations and for indirect administrative cost allocations (including in-lieu property tax and franchise fees) charges to Enterprise Funds. During the year a transfer in the amount of $500,000 was made from the Fleet Management Internal Service Funds to the General Fund. Of the total, transfers totaling $4,658,000 from the Fleet Management Fund to Capital Projects were made in order to fund pay-as-you go capital projects and to reduce the excess cash balance in the Fleet Management Fund.

Net transfers (in thousands of dollar):

Transfers Out From:			**Transfers In To:**		
Major Governmental Funds					
General	$	38,402	**Major Governmental Funds**		
			Capital Projects		
			General CIP Construction	$	17,921
			Nonmajor Governmental Funds		20,431
			Internal Service Funds		50
Capital Projects					
General CIP Construction		31	**Nonmajor Governmental funds**		31
Total Major Governmental Funds		38,433	Total Major Governmental Funds		38,433

Transfers Out From:		Transfers In To:	
Major Enterprise Funds			
Water and Sewer	$ 9,570	**Major Governmental Funds**	
		General Fund	$ 7,176
		Capital Projects	
		General CIP Construction	2,394
Airport	334	**Major Governmental Funds**	
		General Fund	74
		Capital Projects	
		General CIP Construction	260
Solid Waste	1,066	**Major Governmental Funds**	
		Capital Projects	
		General CIP Construction	836
		Internal Service	230
Total Major Enterprise Funds	10,970	Total Major Enterprise Funds	10,970
Nonmajor Governmental Funds	53,149	**Major Governmental Funds**	
		General Fund	3
		Debt Service	
		General Obligation Bond	9,040
		Capital Projects	
		General CIP Construction	12,788
		Nonmajor Governmental funds	31,318
Total Nonmajor Governmental Funds	53,149	Total Nonmajor Governmental Funds	53,149
Internal Service	5,184	**Major Governmental Funds**	
		General Fund	500
		Capital Projects	
		General CIP Construction	4,669
		Major Enterprise Funds	
		Enterprise	
		Water and Sewer	15
Total Internal Service Funds	5,184	Total Internal Service Funds	5,184
Total	$ 107,736	Total	$ 107,736

E. Bonds, Loans, Capital Leases and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2003. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2003.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

General Obligation Bonds
General Obligation (GO) bonds are issued, after approval by City of Scottsdale voters at an authorized bond election, to finance the construction of water and sewer systems, artificial lighting, parks and open spaces, recreational facilities, and general purpose improvements. At June 30, 2003, the City had $330,200,000 of unissued various purpose GO bonds, which were authorized in September 2000. In addition, the City had $65,400,000 of unissued Preservation GO bonds, which were authorized in September 1999. GO bonds are backed by the full faith and credit of the City, and are repaid through the City's levying of property (ad valorem) taxes. However, the Preservation GO bonds are repaid through the two-tenths of one percent City sales tax approved by voters in September 1996 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve. Additionally, a portion of the City's GO bonds are recorded in the Water Enterprise Fund as described below, and are repaid through revenues of that fund unless such revenues are insufficient.

Highway User Revenue Fund Bonds
Highway User Revenue Fund (HURF) bonds are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the Special Revenue Fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Municipal Property Corporation Bonds
The Municipal Property Corporation (MPC) is a nonprofit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. Most of these bonds are recorded as general long-term debt. The 1995 MPC Transfer Station bonds, however, are recorded in and paid out of revenues of the Solid Waste Enterprise Fund. The 2001 MPC Scottswater bonds are recorded in and paid out of the revenues of the Water Enterprise Fund.

Scottsdale Preserve Authority Bonds
The Scottsdale Preserve Authority (SPA) is a nonprofit corporation created by the City in 1997 to finance land acquisitions for the McDowell Sonoran Preserve. The SPA issues its own bonds which are repaid through the two tenths of one percent City sales tax approved by voters in September 1996 to be used specifically for this purpose. SPA bonds are recorded as general long-term debt and are paid out of the SPA Debt Service Fund.

Water & Sewer Revenue Bonds
Water & Sewer Revenue Bonds are issued as authorized by the voters for the construction, acquisition, furnishing and equipping of water and sewer facilities and related systems. At June 30, 2003, the City had $3,340,000 authorized but unissued Water & Sewer Revenue bonds. The City has no plans to issue the remaining portion of the unissued Water & Sewer Revenue bonds authorized as all projects related to the authorization have been completed. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Water & Sewer Revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2003, the funds reserved for this purpose were $14,285,965.

Special Assessment Bonds
Special Assessment bonds are issued by the City on behalf of improvement districts created by property owners for a specific purpose, such as to finance local street, water or sewer improvements, or to acquire an existing water or sewer operation. Property owners in the designated districts agree to be assessed for the principal and interest costs of repaying the bonds. As trustee for improvement districts, the City is responsible for collecting the assessments levied against the owners of property within the improvement districts and for disbursing these amounts to retire the bonds issued to finance the improvements. The receivables, revenues, and debt service expenses related to these bonds are recorded in the Special Assessments Debt Service Fund. At June 30, 2003, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, were adequate for the scheduled maturities of the bonds payable and the related interest.

These bonds are secured by a lien on the property and improvements of all parcels within each district. In the event of default by the property owner, the City may enforce auction sale to satisfy the debt service requirements of the improvement bonds. The City is contingently liable on Special Assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds.

The City Council's adopted policy is that special assessment debt is permitted only when the ratio of the full cash value of the property (prior to improvements being installed) when compared to debt is a minimum of 3 to 1 prior to issuance of debt, and 5 to 1 or higher after construction of improvements. In addition, cumulative improvement district debt is not permitted to exceed 5 percent of the City's secondary assessed valuation.

At June 30, 2003, there were 6 separate series of Special Assessment Bonds outstanding, each series issued as serial bonds to be repaid over 10 years.

Community Facilities Districts General Obligation Bonds
Community Facilities District General Obligation Bonds are issued by community facilities districts (CFDs), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. CFD Bonds are repaid by ad valorem taxes levied directly by the districts and collected by the county. Property owners in the districts are assessed for District taxes and thus for all costs associated with the Districts. The City has no liability for CFD Bonds.

CFDs are created only by petition to the City Council by property owners within the district areas. As board of directors for the CFDs, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the unimproved district property to the proposed district debt, is a minimum of 3 to 1, and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the CFD and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's secondary assessed valuation.

CFD Advance Refundings
There were no refundings during fiscal year 2002/03. In prior years, the McDowell Mountain Ranch CFD and the Scottsdale Mountain CFD refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The table reflects refunded debt outstanding at June 30, 2003, and net of any amounts to be paid or retired by the trustee on July 1, 2003 (in thousands of dollars).

Refunded in Prior Year
(in thousands of dollars)

McDowell Mountain Ranch CFD:		
General Obligation Series Series 1994	$ 7,735	
General Obligation Series Series 1994 A	2,845	
General Obligation Series 1997	6,910	$ 17,490
Scottsdale Mountain CFD:		
General Obligation Series Series 1993A	2,500	
General Obligation Series Series 1993B	85	
General Obligation Series 1995	1,725	4,310
Total CFD Bonds Refunded in Prior Years		$ 21,800

Bonds payable at June 30, 2003 are comprised of the following:

Classified in Governmental Activities on the Government-wide financial statements:

General Obligation Bonds	Bonds Outstanding (in thousands of dollars)
1989 Capital Improvement Project Serial Bonds (Series C issued 1992)/Refunding Bonds due in annual installments of $750,000 to $2,025,000 through July 1, 2012; interest at 5.25 percent to 7.75 percent. On September 3, 1997, $5,505,000 due 2007 through 2010 were refunded, on July 18, 2001, an additional $5,610,000 due 2005, 2006, 2011 and 2012 were refunded, and on September 26, 2002, another $2,065,000 due 2003 and 2004 were refunded. Original issue amount, $25,055,000.	$ -
1993 Refunding Bonds due in annual installments of $1,010,000 to $8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. $28,399,993 of these bonds are recorded in and paid out of the Water Fund. Of the total outstanding at June 30, 2003, $10,231,258 bonds are capital appreciation bonds maturing in 2004 and 2005, of which $6,652,737 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	17,248
1989 Capital Improvement Project Serial Bonds (Series D issued 1993) due in annual installments of $500,000 to $1,475,000 through July 1, 2013; interest at 4.0 percent to 6.5 percent. On September 26, 2002, $9,940,000 due 2002 through 2011 were refunded. Original issue amount, $21,000,000.	2,905
1993A Refunding Bonds due in annual installments of $475,000 to $5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. $1,315,000 of these bonds are recorded in and paid out of the Water Fund. The original issue amount for the 1993A Refunding Bonds was $24,265,000.	15,865
1989 Capital Improvement Project Serial Bonds (Series E issued 1994) due in annual installments of $450,000 to $1,150,000 through July 1, 2014; interest at 5.25 percent to 8.25 percent. On September 3, 1997, $4,325,000 due 2007 through 2011 were refunded, on July 18, 2001, an additional $5,350,000 due 2004 through 2006 and 2012 through 2014 were refunded, and on September 26, 2002, another $625,000 due 2003 were refunded. Original issue amount, $14,250,000.	-
1994 Various Projects Serial Bonds due in annual installments of $475,000 to $775,000 through July 1, 2014; interest at 5.75 percent to 8.25 percent. On September 3, 1997, $9,525,000 due 2006 through 2014 were refunded, on July 18, 2001, an additional $1,500,000 due 2004 and 2005 were refunded, and on September 26, 2002, another $700,000 due 2003 were refunded. Original issue amount, $16,000,000.	-
1995 Storm Sewer, Parks and Pima Road Improvement Serial Bonds (issued November 1, 1995) due in annual installments of $425,000 to $1,200,000 through July 1, 2015; interest at 4.65 percent to 7.0 percent. On July 18, 2001, $2,725,000 due 2009 through 2011 were refunded, and on September 26, 2002, an additional $8,125,000 due 2002 through 2008 and 2012 through 2015 were refunded. Original issue amount, $15,000,000.	-
1989 Capital Improvement Project Serial Bonds (Series H issued January 1, 1997) due in annual installments of $870,000 to $2,115,000 through July 1, 2016; interest at 5.0 percent to 7.5 percent. On September 26, 2002, $18,305,000 due 2006 throuth 2016 were refunded. Original issue amount, $27,500,000.	2,415

1997 Refunding Bonds (issued September 3, 1997) due in annual installments of $50,000 to $3,510,000 through July 1, 2014, interest at 4.45 percent to 5.5 percent. Original issue amount $19,900,000.	$	19,850
1989 Capital Improvement Project Serial Bonds (issued April 6, 1998) due in annual installments of $445,000 to $1,340,000 through July 1, 2018, interest at 4.3 percent to 6.5 percent. On September 26, 2002, $8,180,000 due 2009 through 2015 were refunded. Original issue amount $20,500,000.		8,910
1999A Transportation, Storm Sewer, Flood Protection and Pima Road Improvements Serial Bonds (issued June 29, 1999) due in annual installments of $675,000 to $1,900,000 through July 1, 2019; interest at 4.6 percent to 6.5 percent. On September 26, 2002, $15,525,000 due 2010 through 2019 were refunded. Original issue amount $25,200,000.		6,450
1999 Preservation Bonds (issued November 16, 1999) due in annual installments of $800,000 to $4,225,000 through July 1, 2024; interest at 7.5 percent to 5.0 percent. On July 18, 2001, $32,375,000 due 2012 through 2022 were refunded, and on September 26, 2002, an additional $4,125,000 due 2010 and 2011 were refunded. Original issue amount $59,600,000.		18,400
2001 Preservation Bonds (issued March 29, 2001) due in annual installments of $920,000 to $2,455,000 through July 1, 2024; interest at 4.0 percent to 6.0 percent. On September 26, 2002, $3,920,000 due 2010 through 2012 were refunded. Original issue amount $35,000,000.		29,210
2001 Refunding Bonds (issued July 18, 2001) due in annual installments of $70,000 to $5,030,000 through July 1, 2022; interest at 3.875 percent to 5.375 percent. Original issue amount $51,155,000.		49,570
2002 Various Purpose Bonds (issued May 16, 2002) due in annual installments of $1,740,000 to $5,000,000 through July 1, 2024; interest at 4 percent to 5 percent. Original issue amount $68,000,000.		66,260
2002 Refunding Bonds (issued September 26, 2002) due in annual installments of $1,625,000 to $8,795,000 through July 1, 2019; interest at 2 percent to 5 percent. Original issue amount $72,000,000.		67,920
Total General Obligation Bonds Outstanding		305,003

The 1999 and 2001 Preservation Bonds of $18,400,000 and $29,210,000, respectively, and portions of the 2001 Refunding Bonds, 2002 Various Purpose Bonds, and 2002 Refunding Bonds of $28,293,000 and $40,000,000 and $8,100,000, respectively, are paid from the .2% Preservation Sales Tax.

HURF Revenue Bonds

1993 Highway User Revenue Refunding Serial Bonds due in annual installments of $405,000 to $2,990,000 through July 1, 2007; interest at 4.25 percent to 5.5 percent. Original issue amount, $26,690,000.	10,990

Municipal Property Corporation Bonds

1992 Refunding Series Municipal Property Corporation Certificates of Participation due in semi-annual installments of $55,000 to $1,865,000 through November 1, 2014; interest at 5.0 percent to 6.375 percent. On August 7, 2002, $30,885,000 due 2003 through 2014 were refunded. Original issue amount, $47,095,000.	$ -
1993 Municipal Property Corporation Refunding Bonds due in annual installments of $515,000 to $4,170,000 through July 1, 2005; interest at 4.25 percent to 5.375 percent. Original issue amount, $29,475,000.	8,120
1994 Municipal Property Corporation Refunding Bonds due in annual installments of $775,000 to $1,080,000 through July 1, 2004; interest at 4.3 percent to 5.15 percent. Original issue amount, $9,295,000.	1,080
1995 Municipal Property Corporation TPC Land Taxable Excise Tax Revenue Bonds due in annual installments of $70,000 to $285,000 through July 1, 2015; interest at 7.7 percent to 9.0 percent. Original issue amount, $2,950,000.	2,270
1996 Municipal Property Corporation Excise Tax Revenue Bonds for McCormick/Stillman Park, computers, and curbside recycling (issued July 1, 1996) due in annual installments of $310,000 to $1,570,000 through July 1, 2004; interest at 4.4 percent to 5.4 percent. The curbside recycling portion (2,800,000 issued, $0 outstanding) of bonds are recorded in and paid out of the Solid Waste Enterprise Fund. Original issue amount, $7,550,000.	340
1998 Municipal Property Corporation Excise Tax Revenue Bonds (issued December 2, 1998) due in annual installments of $3,500,000 to $180,000 through July 1, 2008; interest at 4.0 percent. Original issue amount, $9,150,000.	835
2002 Municipal Property Corporation Refunding Bonds (issued August 7, 2002) due in annual installments of $1,260,000 to $3,505,000 through July 1, 2014; interest at 5.5 percent. Original issue amount, $30,570,000.	29,310
Total MPC Bonds Outstanding	41,955

Scottsdale Preserve Authority Bonds

1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of $170,000 to $1,475,000 beginning July 1, 1998, through July 1, 2022; interest at 7.75 percent to 5.625 percent. On July 18, 2001, $16,690,000 due 2006 through 2022 were refunded. Original issue amount $20,500,000.	1,160
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of $1,015,000 to $6,585,000 beginning July 1, 1999, through July 1, 2024; interest at 6.0 percent to 4.75 percent. Original issue amount $77,000,000.	69,740
2001 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued July 18, 2001, due in annual installments of $60,000 to $1,465,000 beginning July 1, 2002, through July 1, 2022; interest at 4.375 percent to 5.25 percent. Original issue amount $17,495,000.	17,370
Total Scottsdale Preserve Authority Bonds	88,270

Special Assessment Bonds

Special Assessment Bonds issued April 23, 1992, through December 20, 2001, maturing January 1, 2004, through January 1, 2013; due in annual installments of $15,000 to $1,575,000; interest at 4.5 percent to 7.05 percent. Total original issue amount, $43,045,000.	$ 11,140

Community Facilities Districts General Obligation Bonds

1998 DC Ranch Community Facilities District General Obligation Bonds due in annual installments of $155,000 to $385,000 beginning July 15, 2005 through July 15, 2023; interest at 4.75% to 5.5%. Original issue amount $4,750,000.	4,750
1999 Via Linda Road Community Facilities District General Obligation Bonds due in annual installments of $95,000 to $255,000 beginning July 15, 2004 through July 15, 2023; interest at 5.0% to 5.75%. Original issue amount $3,225,000.	3,225
1999 McDowell Mountain Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of $320,000 to $1,455,000 beginning July 15, 1999 through July 15, 2022; interest at 4.0% to 6.0%. Original issue amount $20,245,000.	17,970
1999 DC Ranch Community Facilities District General Obligation Bonds (issued November 1, 1999) due in annual installments of $85,000 to $260,000 beginning July 15, 2005 through July 15, 2011. Interest at 5.45% to 6.50%. Original issue amount $3,085,000.	3,085
2002 Scottsdale Mountain Community Facilities District General Obligation Refunding Bonds (issued May 15, 2002) due in annual installments of $160,000 to $455,000 beginning July 15, 2003 through July 15, 2018; interest at 3.0 percent to 4.7 percent. Original issue amount $5,375,000.	5,160
2002 DC Ranch Community Facilities District General Obligation Bonds (issued December 17, 2002) due in annual installments of $245,000 to $1,395,000 beginning July 15, 2004 through July 15, 2027. Interest at 3% to 5%. Original issue amount $12,165,000.	12,165
Total Community Facilities Districts General Obligation Bonds Outstanding	46,355
Total Bonds Payable Recorded in Governmental Activities	$ 503,713

Classified in Business-Type Activities on the Government-wide financial statements:

General Obligation Bonds		Bonds Outstanding (in thousands of dollars)
1993 Refunding Bonds due in annual installments of $1,010,000 to $8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. $28,399,993 of these bonds are recorded in and paid out of the Water Fund. Of the total outstanding at June 30, 2003, $10,231,258 bonds are capital appreciation bonds maturing in 2004 and 2005, of which $6,652,737 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	$	13,008
1993A Refunding Bonds due in annual installments of $475,000 to $5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. $1,315,000 of these bonds are recorded in and paid out of the Water Fund. The original issue amount for the 1993A Refunding Bonds was $24,265,000.		1,315
Total General Obligation Bonds Outstanding		14,323
Water and Sewer Revenue Bonds		
1989 Water and Sewer Revenue Serial Bonds (Series B issued 1992) due in annual installments of $165,000 to $410,000 through July 1, 2012; interest at 5.0 percent to 7.5 percent. Original issue amount, $5,000,000.		2,910
1989 Water and Sewer Revenue Bonds (Series C issued 1994) due in annual installments of $125,000 to $240,000 through July 1, 2014; interest at 5.75 percent to 8.25 percent. $3,005,000 of these bonds due 2006 through 2014 were refunded on March 1, 1996. Original issue amount, $5,000,000.		465
1996 Water and Sewer Revenue Refunding Serial Bonds (issued March 1, 1996) due in annual installments of $325,000 to $1,000,000 beginning July 1, 1997 through July 1, 2014; interest at 3.5 percent to 5.625 percent. Original issue amount, $9,815,000.		6,700
1989 Water and Sewer Revenue Bonds (Series D issued November 1, 1997) due in annual installments of $425,000 to $1,375,000 through July 1, 2022; interest at 4.75 percent to 7.25 percent. Original issue amount $20,000,000.		17,100
1989 Water and Sewer Revenue Bonds (Series E issued December 2, 1998) due in annual installments of $1,015,000 to $4,615,000 through July 1, 2023; interest at 4.5 percent to 7.0 percent. Original issue amount $50,000,000.		44,055
Total Water and Sewer Revenue Bonds Outstanding		71,230

Municipal Property Corporation Bonds

1995 Municipal Property Corporation Transfer Station Excise Tax Revenue Serial Bonds (issued November 1, 1995) due in annual installments of $160,000 to $330,000 through July 1, 2010; interest at 4.75 percent to 7.25 percent. These bonds are recorded in and paid out of the Solid Waste Enterprise Fund. Original issue amount, $3,500,000.	$	1,985
2001 Municipal Property Corporation Scottswater Excise Tax Revenue Serial Bonds (issued October 10, 2001) due in annual installments of $1,160,000 to $1,835,000 through July 1, 2008; interest at 3.5 percent to 5 percent. These bonds are recorded in and paid out of the Water Enterprise Fund. Original issue amount, $10,500,000.		8,025
Total Municipal Property Corporation Bonds Outstanding		10,010
Total Bonds Payable Recorded in Business-type Activities		95,563
Total Long-term Portion of Bonds Payable	$	599,276

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, and open space purposes may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Accretion on capital appreciation bonds, which is included for GAAP purposes as outstanding debt, is excluded for this calculation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the City of Scottsdale's legal general obligation bonded debt borrowing capacity at June 30, 2003 (in thousands of dollars):

General Obligation Bonds Issued to Provide Water, Sewer, Light,		
20% Constitutional Limit	$	705,321
Less General Obligation 20% Bonds Outstanding		(237,400)
Available 20% Limitation Borrowing Capacity	$	467,921

General Obligation Bonds Issued for All Other Purposes		
6% Constitutional Limit	$	211,596
Less General Obligation 6% Bonds Outstanding		(71,695)
Available 6% Limitation Borrowing Capacity	$	139,901

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has an independent consultant evaluating the City's outstanding tax-exempt debt for arbitrage liability. As of June 30, 2003, the City has recognized an arbitrage liability of $151,853. This arbitrage liability is reported in due to other governments in the governmental activities statement of net assets.

Advance and Forward Refundings

During the year ended June 20, 2003, the City issued two series of refunding bonds.

The City issued $72,000,000 of General Obligation Refunding Bonds, Series 2002, (advance refunding) dated September 26, 2002, with an average interest rate of 4.5%, to refund $71,510,000 of Series 1992, 1993, 1994, 1995, 1997, 1998, 1999, 1999A and 2001 General Obligation and Preservation Bonds with an average interest rate of 4.92%. The City will reduce its total debt service payments over the next 22 years by approximately $3,218,584 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $611,585.

The City issued $30,570,000 of Municipal Property Corporation Refunding Bonds, Series 2002, (forward refunding) dated August 7, 2002, with an average interest rate of 5.5%, to refund $30,885,000 of Series 1992 Excise Tax Revenue Refunding Bonds with an average interest rate of 6.26%. The City refunded the bonds to reduce its total debt service payments over the next 13 years by approximately $2,059,698 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,073,165.

The proceeds from the issuance of the bonds were used to purchase U.S. Government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the City's financial statements.

In prior years, the City refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded.

The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The tables below reflect refunded debt outstanding at June 30, 2003, net of any amounts to be paid or retired by the trustee on July 1, 2003.

Refunded in Year Ended June 30, 2003 (in thousands of dollars)		
1989 General Obligation Series C (1992) Bonds	$	2,065
1989 General Obligation Series D (1993) Bonds		9,940
1989 General Obligation Series E (1994) Bonds		625
1994 General Obligation Bonds		700
1995 General Obligation Bonds		8,125
1997 General Obligation Bonds		18,305
1998 General Obligation Bonds		8,180
1999A General Obligation Bonds		15,525
1999 Preservation General Obligation Bonds		4,125
2001 Preservation General Obligation Bonds		3,920
1992 Refunding Municipal Property Corporation Certificates of Participation		30,885
	$	102,395

Refunded in Prior Years (in thousands of dollars)		
1989 General Obligation Series B (1991) Bonds	$	11,895
1989 General Obligation Series C (1992) Bonds		11,115
1989 General Obligation Series E (1994) Bonds		9,675
1994 General Obligation Bonds		11,025
1995 General Obligation Bonds		2,725
1999 General Obligation Bonds		32,375
1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds		16,690
	$	95,500

Contracts Payable

The City of Scottsdale has entered into various purchase contracts related to economic development, acquisition of water system facilities, acquisition of recreational facilities and patents. The following is a summary of debt service to maturity for all long-term contracts payable at June 30, 2003. The final payment for the water facilities contract was made during the current year; as a result, there were no long-term contracts payable classified in business-type activities.

Classified in Governmental activities on the government-wide financial statements:

	Contracts Payable (in thousands of dollars)
Contract payable to the U.S. Army Corps of Engineers for the construction of flood control and recreation facilities; due in annual installments through 2032; interest at 5.1 percent.	$ 3,304
Contract payable for the construction of public infrastructure relating to completion of The Dial Corporation new corporate headquarters; due in annual installments beginning September 1998 through September 2007; non-interest bearing.	268
Contract payable for the maintenance of a federal patent; due in three year installments beginning January 1, 2001 through January 1, 2009; non-interest bearing.	5
Contract payable for the oversight and management of the Tournament Players Club Recreational Land Use Agreement; due in annual installments beginning March 1999 through June 2035; non-interest bearing.	1,760
Contract payable for the oversight and management of the Westworld Cost-share and Land Use Agreement; due in annual installments beginning December 2000 through December 2032; non-interest bearing.	1,650
Contract payable for the construction of public infrastructure relating to completion of the Anchor National Life / Portales mixed use development; due in annual installments beginning 2003.	2,117
Contract payable for the construction of public infrastructure relating to completion of the Promenade shopping center; due in annual installments beginning March 2000 through March 2007; non interest bearing.	2,953
Contract payables for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through; interest at 10.0 percent.	140
Contract payable for the purchase of a portion of 2,685 acres of land for the McDowell Sonoran Preserve; due in fifteen annual installments beginning July 1, 1999 through July 1, 2013; interest from 3.75 percent to 6.0 percent.	7,430
Total Contracts Payable Recorded in Governmental Activities	$ 19,627

Capital Lease

In connection with the Waterfront Area Redevelopment Plan, the City has entered into a garage lease agreement in order to provide public parking. The lease has an initial term of 50 years. The lease is payable over 30 years in the amount of $28,750,000, plus interest at 9.14% per annum compounded annually, subject to an interest rate buy down option. The exclusive funding source for the lease payments is new retail sales tax revenues generated by the Nordstrom department store and the multilevel retail bridge linking Nordstrom to Fashion Square, as well as increased retail sales tax revenues (over 1995) from Fashion Square.

The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded as buildings and other improvements, at the present value of the future minimum lease payments as of the inception date. According to the lease agreement annual payments should be allocated to interest due first with the remaining amount allocated to the principal. Current estimates indicate that it is unlikely that any principal will be paid until near the end of the lease.

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2003 (in thousands of dollars).

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
General Obligation Bonds	$ 319,657	$ 72,741	$ (87,395)	$ 305,003	$ 14,483
HURF Revenue Bonds	13,385	-	(2,395)	10,990	2,515
Municipal Property Corporation Bonds	49,870	30,570	(38,485)	41,955	7,815
Scottsdale Preserve Authority Bonds	90,585	-	(2,315)	88,270	2,445
Special Assessments Bonds	13,061	-	(1,921)	11,140	2,386
Community Facilities Districts General Obligation Bonds	34,935	12,165	(745)	46,355	1,405
Add Deferred Issuance Premiums	1,572	6,284	(992)	6,864	-
Less Deferred Amounts on Refunding	(3,585)	(5,865)	1,123	(8,327)	-
Total Bonds Payable	519,480	115,895	(133,125)	502,250	31,049
Contracts Payable	21,416	-	(1,789)	19,627	2,205
Capital Lease	28,750	-	-	28,750	-
Compensated Absences	12,455	-	(960)	11,495	1,993
Governmental Activity Long-term Liabilities	$ 582,101	$ 115,895	$ (135,874)	$ 562,122	$ 35,247

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the year ended June 30, 2003, $326,000 of accrued compensated absences is included in the above amount. For the governmental activities, the General Fund, Special Revenue Funds and Capital Projects Funds generally liquidate accrued compensated absences.

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Business-type Activities:					
Bonds Payable					
General Obligation Bonds	$ 18,315	$ 828	$ (4,820)	$ 14,323	$ 592
Water and Sewer Revenue Bonds	73,945	-	(2,715)	71,230	2,860
Municipal Property Corporation Bonds	11,555	-	(1,545)	10,010	1,645
Add Deferred Issuance Premiums	225	-	(37)	188	-
Less Deferred Amounts on Refunding	(288)	-	47	(241)	-
Total Bonds Payable	103,752	828	(9,070)	95,510	5,097
Compensated Absences	1,628	-	(283)	1,345	226
Business-type Activity Long-term Liabilities	$ 105,380	$ 828	$ (9,353)	$ 96,855	$ 5,323

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2003. Deferred issuance costs and deferred amounts on refunding are not included.

Governmental Activities
(in thousands of dollars)

Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			General Obligation Bonds Issued For All Other Purposes 6% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 3,093	$ 13,489	$ 16,582	$ 11,390	$ 3,323	$ 14,713	$ 14,483	$ 16,812	$ 31,295
2005	6,526	13,358	19,884	8,491	2,824	11,315	15,017	16,182	31,199
2006	5,476	10,865	16,341	10,479	2,409	12,888	15,955	13,274	29,229
2007	6,065	10,560	16,625	12,080	1,902	13,982	18,145	12,462	30,607
2008	7,775	10,205	17,980	11,165	1,363	12,528	18,940	11,568	30,508
2009-2013	73,305	42,469	115,774	18,090	1,308	19,398	91,395	43,777	135,172
2014-2018	64,260	24,369	88,629	-	-	-	64,260	24,369	88,629
2019-2023	51,550	10,674	62,224	-	-	-	51,550	10,674	62,224
2024-2028	11,680	584	12,264	-	-	-	11,680	584	12,264
Capital Appreciation **	3,578	(3,578)	-	-		-	3,578	(3,578)	-
Total	$ 233,308	$ 132,995	$ 366,303	$ 71,695	$ 13,129	$ 84,824	$ 305,003	$ 146,124	$ 451,127

** For GAAP financial statement reporting, accretion of capital appreciation bonds is added to the principal balance outstanding.

Governmental Activities (continued)
(in thousands of dollars)

Fiscal Year	Highway User Revenue Bonds			Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,515	$ 591	$ 3,106	$ 7,815	$ 2,330	$ 10,145	$ 2,445	$ 4,414	$ 6,859
2005	2,660	459	3,119	6,740	1,916	8,656	2,595	4,258	6,853
2006	2,825	316	3,141	2,725	1,548	4,273	2,740	4,092	6,832
2007	2,990	164	3,154	2,870	1,396	4,266	2,890	3,940	6,830
2008	-	-	-	3,020	1,237	4,257	3,035	3,778	6,813
2009-2013	-	-	-	16,820	3,559	20,379	17,475	16,226	33,701
2014-2018	-	-	-	1,965	143	2,108	22,125	11,382	33,507
2019-2023	-	-	-	-	-	-	28,380	5,494	33,874
2024-2028	-	-	-	-	-	-	6,585	296	6,881
Total	$ 10,990	$ 1,530	$ 12,520	$ 41,955	$ 12,129	$ 54,084	$ 88,270	$ 53,880	$ 142,150

Governmental Activities (continued)
(in thousands of dollars)

Fiscal Year	Special Assessment Bonds			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,385	$ 477	$ 2,862	$ 1,405	$ 2,255	$ 3,660
2005	2,415	349	2,764	1,470	2,193	3,663
2006	835	267	1,102	1,535	2,121	3,656
2007	835	192	1,027	1,615	2,045	3,660
2008	835	423	1,258	1,685	1,978	3,663
2009-2013	3,835	-	3,835	9,780	8,705	18,485
2014-2018	-	-	-	12,035	6,170	18,205
2019-2023	-	-	-	11,640	3,065	14,705
2024-2028	-	-	-	5,190	668	5,858
Total	$ 11,140	$ 1,708	$ 12,848	$ 46,355	$ 29,200	$ 75,555

Governmental Activities (continued)
(in thousands of dollars)

Fiscal Year	Contracts Payable			Capital Lease			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,205	533	$ 2,738	$ -	$ 2,120	$ 2,120	$ 33,253	$ 29,532	$ 62,785
2005	2,235	502	2,737	-	2,184	2,184	33,132	28,043	61,175
2006	2,262	469	2,731	-	2,249	2,249	28,877	24,336	53,213
2007	1,834	435	2,269	-	2,317	2,317	31,179	22,951	54,130
2008	951	398	1,349	-	2,386	2,386	28,466	21,768	50,234
2009-2013	5,313	1,361	6,674	-	13,049	13,049	144,618	86,677	231,295
2014-2018	1,117	589	1,706	-	15,127	15,127	101,502	57,780	159,282
2019-2023	1,278	428	1,706	-	17,536	17,536	92,848	37,197	130,045
2024-2028	1,484	222	1,706	28,750	24,101	52,851	53,689	25,871	79,560
2029-2033	838	24	862	-	-	-	838	24	862
2034-2035	110	-	110	-	-	-	110	-	110
Capital Appreciation	-	-	-	-	-	-	3,578	(3,578)	-
Total	$ 19,627	$4,961	$ 24,588	28,750	81,069	109,819	$ 552,090	$ 330,601	$ 882,691

Business-type Activities
(in thousands of dollars)

Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	$ 592	$ 4,293	$ 4,885	$ 592	$ 4,293	$ 4,885
2005	563	4,352	4,915	563	4,352	4,915
2006	6,515	340	6,855	6,515	340	6,855
2007	-	-	-	-	-	-
2008	-	-	-	-	-	-
2009-2013	-	-	-	-	-	-
2014-2018	-	-	-	-	-	-
2019-2023	-	-	-	-	-	-
2023-2026	-	-	-	-	-	-
Capital Appreciation **	6,653	(828)	5,825	6,653	(828)	5,825
Total	$ 14,323	$ 8,157	$ 22,480	$ 14,323	$ 8,157	$ 22,480

Business-type Activities (continued)
(in thousands of dollars)

Fiscal Year	Water and Sewer Revenue Bonds			Municipal Property Corporation Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,860	$ 3,650	$ 6,510	$ 1,645	$ 412	$ 2,057	$ 5,097	$ 8,355	$ 13,452
2005	3,055	3,467	6,522	1,745	350	2,095	5,363	8,169	13,532
2006	3,245	3,270	6,515	1,860	286	2,146	11,620	3,896	15,516
2007	3,400	3,076	6,476	1,990	217	2,207	5,390	3,293	8,683
2008	3,565	2,873	6,438	2,130	118	2,248	5,695	2,991	8,686
2009-2013	17,105	11,475	28,580	640	46	686	17,745	11,521	29,266
2014-2018	16,995	7,263	24,258	-		-	16,995	7,263	24,258
2019-2023	21,005	2,991	23,996	-	-	-	21,005	2,991	23,996
2023-2026	-	-	-	-	-	-	-	-	-
Capital Appreciation **	-	-	-	-	-	-	6,653	(828)	5,825
Total	$ 71,230	$ 38,065	$ 109,295	$ 10,010	$ 1,429	$ 11,439	$ 95,563	$ 47,651	$ 143,214

** For GAAP financial statement reporting, accretion of capital appreciation bonds is added to the principal balance outstanding.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to public, property, and aviation premises liability, self-insured benefits and workers compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City is self-insured for the first $2,000,000 of public liability, the first $100,000 of property coverage and the first $600,000 of workers compensation. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance. During the fiscal year ending June 30, 2003, there was significant reduction in excess liability insurance coverage limits due to a very restricted and expensive global insurance marketplace, due in large part to the terrorist attacks of September 11, 2001. As a result, overall liability coverage limits were reduced from a total of $75 million to $30 million to stay within budget. As for claim expenditures, settlements for each of the past three fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

The City reports its self-insurance activity in its Self-Insurance Internal Service Fund. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The claims liabilities amount recorded in the accompanying financial statements is based on reported pending claims and an actuarial analysis and projection of the accrued liability amounts necessary to fund the claims. At June 30, 2003, the general liability claims payable totaled $7,610,421 and the self-insured benefits claims totaled $1,229,000.

	Years Ended June 30	
(in thousands of dollars)	2003	2002
Claims Payable, July 1	$ 8,420	$ 7,721
Current Year Claims Incurred	6,065	7,883
Current Year Claim Payments	(5,646)	(7,184)
Claims Payable June 30	$ 8,839	$ 8,420

In addition, management has established a policy to retain a cash balance at the 90% confidence level for general risk claims and a corridor and premium stabilization reserve for the self-insured health benefits. At June 30, 2003, the 90% confidence level recommendation is $11,035,110 for all lines of pending claims and the claims incurred, corridor reserve and premium stabilization reserve total $1,981,000 for self-insured benefits.

B. Contingent Liabilities

The City is a party to several lawsuits incidental to its normal operations. Management, with concurrence of the City Attorney, and outside legal counsel, is of the opinion that settlement of these lawsuits will not have a material effect on the financial position of the City. Therefore, no specific provision has been reflected in the accompanying basic financial statements for these matters.

C. Commitments and Subsequent Events

On November 19, 2002, the City Council approved a development agreement with John Lund relating to a new automotive complex at the southeast corner of Scottsdale Rd. and Loop 101 Freeway. The terms of this agreement require the City to reimburse Lund for up to $5.5 million in public benefits relating to the project including the acquisition of public lands, reimbursement of the City's water and sewer development fees, and reimbursement of the City's stormwater retention payment in lieu. The actual amount will be dependent upon actual costs. However, the reimbursement amount may not exceed $5.5 million even if actual costs are higher. The City has also agreed to pay interest costs on Lund's cost of borrowing on the unpaid balance beginning at 8.5% in the first year and dropping by .5% per year. The reimbursement of the costs listed above, will be accomplished by paying Lund quarterly payments equal to 67% of the City's General Fund sales tax receipts received from the new dealership in that quarter, for a maximum of 10 years. The first payment is not due until the calendar quarter after the calendar quarter in which the first certificate of occupancy is issued.

In June 2002, the City Council approved a three-year agreement with Rural/Metro Corporation (Rural/Metro) whereby Rural/Metro will provide fire protection and related services to the City to June 30, 2005 with the option of two one-year extensions. Payments to Rural/Metro amounted to $16,717,726 for the year ended June 30, 2003. The new contract requires 26 payments during the fiscal year 2003/04 for a total amount of $18,235,442.

The City has a Service Agreement with the Scottsdale Cultural Council (Council) that provides that the Council will manage the arts and cultural affairs within the Scottsdale community for a ten-year period, automatically renewable for two five-year periods. In return, the City will pay service fees to the Council based on the Service Agreement between the City and the Council. Payments to Scottsdale Cultural Council amounted to $2,780,596 for the year ended June 30, 2003. Annual amounts due in fiscal year 2003/04 will approximate $2,780,596.

The City has a Service Agreement with the Scottsdale Convention and Visitors' Bureau (Bureau) that provides that the Council will manage the tourism promotion within the Scottsdale community for a ten-year period. In return, the City will pay service fees to the Council based on the Service Agreement between the City and the Council. Payments to Scottsdale Cultural Council amounted to $5,023,610 for the year ended June 30, 2003. The annual amount due in fiscal year 2004 will be $4,506,000.

The City has entered into several agreements whereby it will reimburse developers for construction costs of certain public infrastructure improvements. The funding source for the reimbursements will come from Water and Sewer development fees paid over the life of the development. Only amounts paid subsequent to January 13, 1997 are eligible for reimbursement. The City does not become liable under the agreements until the City has accepted the cost, a development fee has been paid and a water meter has been set. The City has limited its liability to the lesser of the cost accepted by the City or the development fees paid. The City's maximum contingent liability at June 30, 2003, is $6,512,170.

On July 2, 2003, the City Council approved a redevelopment agreement for the former Los Arcos Redevelopment District. Under the terms of the agreement, the City will share sales tax proceeds generated by the project with the Ellman Companies (the developer), up to a net present value maximum of $36,750,000 plus interest at a rate of 7.18%. This allocation is based on performance-based sharing 69% of the General Fund portion of sales tax generated at the site. After completion of improvements, but prior to any payments by the City, the Developer will deed to the City title to a parking structure and approximately 20 acres of land, plus all improvements on those lands. The City will not be obligated to make any payments until the entire project is completed. Litigation has been filed to challenge this Agreement on a variety of legal issues. The actions seek to declare the Agreement invalid, but do not request money damages against the City or other defendants. The City Attorney's Office has reviewed this Agreement and is optimistic that it is legally defensible.

On September 10, 2003, the City sold City of Scottsdale General Obligation Refunding Bonds, Series 2003 in an aggregate principal amount not to exceed $16,625,000.

D. Joint Venture

The City participates with the cities of Phoenix, Glendale, Mesa, and Tempe in the multi-city Sub-Regional Operating Group (SROG). SROG was formed pursuant to the Joint Exercise of Powers Agreement (JEPA) in order to govern the construction, operation, and maintenance of jointly used sewage treatment and transportation facilities. The facilities include the 91st Avenue Wastewater Treatment Plant, the Salt River Outfall Sewer, the Southern Avenue Interceptor, and related transportation facilities. The City of Phoenix acts as lead agency and is responsible for the planning, budgeting, construction, operation, and maintenance of the facilities. In addition, the City of Phoenix provides all management, personnel, and financing arrangements and accepts federal grants on behalf of the participants. JEPA requires each city to pay for its share of the actual cash costs of operating and maintaining the facilities based on relative sewage flows and strengths.

The City records its share of SROG's cash operating expenses, and its equity in the joint venture in the City's Water and Sewer Utility Fund. For the year ended June 30, 2002, (the latest audited information available from SROG), the City's net investment in SROG was $39,922,000. SROG's net cash operating expenses for the year ended June 30, 2002, were $24,004,656, of which the City's share was $2,348,946, or 9.8 percent. For the year ended June 30, 2003, the City paid $13,133,376 for SROG capital contributions, and $2,190,090 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 for the multi-city Sub-Regional Operating Group (the latest SROG CAFR available) may be obtained from the Arizona Municipal Water Users Association, 4041 N. Central Avenue, Suite 900, Phoenix, AZ 85012.

E. Related Organization

The Industrial Development Authority (Authority) is a nonprofit corporation established by the City in 1984 to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate and remain in Scottsdale. The Board of Directors of the Authority is appointed by the City Council; however, the City's accountability for the authority does not extend beyond making the appointments.

F. Retirement and Pension Plans

All full-time employees of the City, the Mayor, and City Council are covered by one of three pension plans. All full-time City employees, except public safety personnel, participate in the Arizona State Retirement System, a multiple-employer cost sharing pension plan. All public safety personnel participate in the Public Safety Personnel Retirement System, which is an agent multiple-employer pension plan. The Mayor and Council participate in the Elected Officials' Retirement Plan, a multiple-employer cost sharing pension plan. All three pension plans are administered by the State of Arizona.

Arizona State Retirement System

Plan Description

All full-time City employees (except public safety personnel) participate in the Arizona State Retirement System (System), a multiple-employer cost sharing defined benefit pension plan. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5, of the Arizona Revised Statutes. The system provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. The Arizona State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arizona State Retirement System, P.O. Box 33910, Phoenix, AZ 85067-3910, or by calling 1-800-621-3778.

Funding Policy

The Arizona Revised Statutes (ARS) provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate. The actuarially determined contribution rate for the years ended June 30, 2003, 2002, and 2001 were 2.49% (2.00% retirement and .49% long-term disability) 2.49% and 2.66%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2003, 2002, and 2001 were $2,034,363, $2,057,262, and $1,925,741, respectively, equal to the required contributions for each year.

Public Safety Personnel Retirement System

Plan Description

All of the City's public safety personnel (police officers) participate in the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan. PSPRS was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes to provide pension benefits for public safety employees of certain state and local governments. The PSPRS is jointly administered by the fund manager and 171 local boards. PSPRS provides retirement benefits, as well as death and disability benefits. The Public Safety Personnel Retirement System of the State of Arizona issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Safety Personnel Retirement System, 1020 East Missouri Avenue, Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy

The System is funded through a member contribution of 7.65% of gross payroll, an employer contribution set by an actuarial valuation expressed as a percent of gross payroll, and a distribution of the net earnings of the Fund. The City's current contribution rate is 5.37% of annual covered payroll, consisting of 11.64% for normal cost and (6.27%) for amortization of unfunded actuarial accrued liability. Contribution rates for 2002 and 2001 were 5.37% and 4.48%, respectively.

Annual Pension Cost
For 2002, the City's annual pension cost of $924,558 for PSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the individual entry-age actuarial cost method.

The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% per year compounded annually, attributable to inflation and other across-the-board factors, and (c) additional projected salary increases ranging from 6.5% to 9.5% per year, attributable to seniority/merit. Included in (b) is an inflation component of 5.5%. The actuarial value of PSPRS assets was determined using techniques that smooth the market value of assets over a 4-year period. PSPRS's unfunded accrued liability is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period at July 1, 2002 was 20 years.

Elected Officials' Retirement Plan

Three-Year Trend Information for PSPRS
(in thousands of dollars)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	$ 1,198	100%	-
2001	1,133	100%	-
2002	925	100%	-

Plan Description
The City's Mayor and Council participate in the Elected Officials' Retirement Plan (EORP), a multiple-employer cost sharing defined benefit pension plan. The EORP was established and is administered by the State of Arizona to provide pension benefits for state and county elected officials, judges, and certain City-elected officials. The fund manager of the PSPRS is also the administrator for the EORP. EORP provides retirement benefits, as well as death and disability benefits. The Elected Officials' Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for EORP. That report may be obtained by writing to Elected Officials' Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling (602) 255-5575.

Funding Policy
Covered employees are required by state statute to contribute an amount equal to 7% of gross salary. Incorporated city or town employers are required to contribute an amount sufficient to meet both the normal cost of a level-cost method attributable to the EORP, plus the amount required to amortize the unfunded accrued liability for the employer. Such amount is to be determined each year by actuarial valuation and paid as a level percent of compensation. The contribution requirements for plan members are established and may be amended by the Fund Manager, a five-member board. The City's rates for fiscal years ended June 30, 2003, 2002, and 2001 were 6.97%, 6.97% and 10.22%, respectively. The City's contributions to EORP for the years ending June 30, 2003, 2002 and 2001 were $10,036, $9,749, and $13,445, respectively, equal to the required contributions for each year.

G. Other Post-Employment Benefits

In addition to the pension benefits described previously in H the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at one hundred percent cash value at current rate of pay. Employees hired before July 1, 1982 can elect to receive cash equal to fifty percent of the first five hundred twenty hours of unused medical leave plus twenty-five percent of all hours in excess of five hundred twenty. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. Any retiring employee with 300 or more hours of accumulated medical leave, who chooses to remain on the city medical plan, may elect to apply the value of the sick leave to the employee's portion of the health care premiums, up until age 65. The value of the accumulated medical leave is calculated at the employee's hourly rate of pay at the time of retirement.

The number of participants during fiscal year 2002/03 was 85. The projected liability, as of June 30, 2003, for medical conversion was $6,308,534. Of this liability, $5,784,311 is considered payable in greater than one year and is not reflected as a current expenditure in the Governmental Fund statements. The projected liability is based on a January 1, 2003, actuarial valuation. Significant actuarial assumptions of the January 1, 2003 actuarial valuation include a) mortality rates based on the 1983 Group Annuity Mortality Table set back 1 year for males and no set back for females, b) interest compounded 5.0 percent annually, c) salaries increase at a rate of 4.5 to 9.5 percent based on years of service per annum, d) unit credit cost method based on participant data as of January 1, 2003.